

STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS  
*MEMORANDUM*

TO: LULY MASSARO

DATE: 10/31/06

FROM: STEPHEN SCIALABBA  
DIVISION OF PUBLIC UTILITIES

SUBJECT: DOCKET 3760, NATIONAL GRID DISTRIBUTION ADJUSTMENT  
CLAUSE; VERIFICATION OF ON-SYSTEM MARGIN CREDITS.

During the hearings in this docket, the Commission requested that Bruce Oliver determine the accuracy of the reported on-system margin credits for interruptible sales and delivery service and report back to the Commission prior to the open meeting. Details on these margins had been requested in the Division's first data request on the non-earnings component of the DAC filing. This request was submitted to the parties electronically on 9/25/06 as request 1-7. On 10/24/06, the Company provided a response. As of the hearing on 10/25, Mr. Oliver had not had an opportunity to review the response in any detail, but the Division did question at the hearing the reason behind the negative entries reported in the "Margin" column in the response. The Company indicated that the negative entries were for billing adjustments.

Mr. Oliver reported to me that he has had subsequent conversations with Sharon Partridge and Peter Czekanski. Based on those discussions, he can only conclude that presently there are problems in the tracking and reporting of billing adjustments in the Company's billing system for non-firm service customers that limits the Division's ability to verify the appropriateness of the Company's reported non-firm margins. He indicated that there are instances of large adjustments to volumes and/or revenues. In some instances those adjustments may relate to prior periods, but it is not possible without further research to clearly determine the periods to which those adjustments relate and whether the appropriate measures of gas costs have been applied in the computation of margin revenue.

Mr. Oliver believes that the Company recognizes the problems in its current billing system and has reported that the Company has recently assigned an individual to improve the tracking of volumes, revenues, and margins for non-firm customers. However, cleaning the existing data, identifying the billing periods to which adjustments relate, and demonstrating the reasonableness of margin determinations will take some time.

Mr. Oliver has recommended that the Commission premise the DAC charges for the coming DAC period on the Margin Credit factor computed in the Company's filing and allow for subsequently identified adjustments, if any, to be reflected in future DAC determinations.

The Division will continue to work with the Company on this matter, but we must ultimately rely on the Company to provide verifiable margin data.